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SENSITIVE

STATE PASS TO OPIC/USTDA/EXIM/SBA/IADB
USDOC FOR SECRETARY GUTIERREZ
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SUBJECT: MESSAGE FROM AMBASSADOR BARCLAY TO SECRETARY GUTIERREZ

REF: SAN SALVADOR 2787

1. (U) I am looking forward to your visit to El Salvador. Your pivotal role in securing U.S. Congressional approval of CAFTA-DR gives your visit a special significance; the Embassy and the Government of El Salvador also recognize that your making Central America the destination of your first overseas trade mission shows your interest in a strong U.S. relationship with the region. During your visit, we will celebrate our accomplishment in approving CAFTA-DR and explore its business potential. However, it will be important also to focus on commitments to specific actions that will help lift El Salvador out of prolonged slow growth that adversely affects the people of El Salvador and potentially puts U.S. interests at risk. The devastating events of early October only further underscore the vulnerability of the countries of the region and the need to ensure a strong economic foundation.

2. (SBU) You will find a willing and, I believe, capable partner in President Tony Saca. President Saca understands the political importance of showing results from CAFTA-DR, on which he has staked his credibility, and the private sector-led, market oriented set of policies which ARENA governments have pursued since 1989. Saca can make changes, even difficult changes, when necessary; you can help by delivering a message on what some of these changes are and by taking back to Washington ideas on how we can be helpful. If successful at home, Saca also has the potential to be a strong leader in the region. A successful visit next week will give President Saca the support he needs to advance our common agenda in Central America.

3. (U) I have been impressed during my 22 months in El Salvador at the progress it has achieved and at its extraordinary potential for success. You will see much of this when you are here, including good infrastructure and signs of economic activity from the street level to first-class shopping malls. However, El Salvador is also a country that badly needs more and better distributed economic opportunities. Although it has followed determined reforms, El Salvador is plagued with one of the lowest rates of economic growth in Latin America and, in 2004, delivered no gains in per capita income growth. Despite improvements in the quality of life (many intangible), new opportunities for good jobs are scarce for the bulk of the population; many feel menaced by rising crime and a sense of declining purchasing power. The cruel reality is that only by leaving El Salvador (usually to the United States) do many people hope to improve their situation. In turn, El Salvador has become highly dependent on the flow of money that migrants send back to maintain their families, an insecure economic strategy.

4. (SBU) The United States must recognize the importance of this moment. Specific Salvadoran actions to foment conditions for growth and job creation will pay for themselves many times over in foregone economic, political and social costs by preventing a destabilizing economic crisis, more massive emigration to the United States, an increase in local and transnational crime, and possibly the emergence of an unfriendly government. To realize the potential of this economy, El Salvador urgently needs new investment for enterprise development and job creation. We need to ask ourselves, what are we doing, and what more can we do? Following are key actions in the Embassy's scope.

a. Effective implementation of CAFTA. The Salvadoran Government appears to be doing what is necessary to have CAFTA systems in place when the agreement enters into force. We should press El Salvador to lead the region in implementation as they did in negotiating the agreement, and resist the temptation to water down CAFTA-DR's market opening and institutional strengthening ambitions through weak implementing rules.

b. Legislative approval of a Government Ethics Law. The bill,

drawn up with assistance from USAID several years ago, is an important opportunity for the government to build credibility with the public, improve government services, promote transparency and root out petty corruption which acts as a drag on the economy.

c. Salvadoran approval of an updated OPIC bilateral agreement. A modern bilateral will facilitate provision of OPIC services, in particular new services for small business, which would benefit U.S. investors looking for partners and opportunities here. I hope that we will be able to announce progress on this during your visit next week.

d. Effective judicial reform to put an end to slow, unpredictable processes and decisions that affect business, law enforcement and other decisions. El Salvador needs judicial institutions that are effective in resolving business disputes while discouraging inappropriate use of the courts to seek commercial advantage. There are several cases pending involving U.S. companies.

e. Clearer, more consistent rules for and regulatory processes are needed. We would like the electricity and telecommunications regulator, SIGET, to move forward on implementing a public consultation process announced a year ago for new rules and expand the principle of consultation to regulatory reforms. An inadequate consultation process has particularly burdened U.S. companies in the electricity sector, who are operating under a series of non-transparent regulatory decisions driven by a political objective of mitigating tariff changes on consumers rather than market efficiencies.

15. (U) There are things that the United States can do, and I urge you to make leaders of Ex-Im, OPIC, SBA and TDA widely available to look for partnerships and projects with a strong growth component. Our agencies should consider how they can help open up access to investment capital and financial resources, support infrastructural development, provide technical assistance for businesses, promote technology adoption, and reduce production and transaction costs?

16. (U) Growing companies, and especially small companies, require capital, but the Salvadoran banking system is not meeting their needs. During their meeting with the banking association, the interagency delegation should talk about how to develop mechanisms for risk capital, for example by expanding the rights of minority shareholders, the value of using the local equity market to raise capital; what might the USG do to foster guarantee programs to support credit, particularly small business? USAID, for example, has initiated a guarantee program and we would be interested in learning if there are other options available. They should use the meeting with the MultiSectoral Bank (BMI) or seek out other discussions to learn about El Salvador's plan to develop its service industries, including logistical services and tourism. El Salvador would like to leverage its infrastructure and location to promote shipping and other trade related logistics services. This plan involves enhancing the country's two ports, concessioning airport services, rebuilding the railroad and improving Customs administration, all activities which Ex-Im, TDA and OPIC can support. TDA's grant for an electronic trade portal, which will be announced during your visit, is a very positive development in this area.

17. (U) Other targets of opportunity are plans by U.S. investors and the government-owned hydropower firm CEL to construct new power plants in country, emerging GOES interest in biofuels, and interest in natural resource exploitation. Large projects like these may exceed the government's environmental, resource management, tendering and other abilities; assistance from the USG can help both U.S. businesses and ensure the best possible outcome for El Salvador.

18. (U) In the longer term, continued public support here for CAFTA-DR, and effective use of the market signals that CAFTA-DR will facilitate, requires helping sectors that are disadvantaged transition to new activities. The Administration's commitment to seek funding until 2009 to support this transition in the rural sector is important. USAID and USDA are already working to support diversification into non-traditional, value added products, and quality coffee, but we will need to continue strong support in this area. Agricultural sector growth is currently a bright spot in part because of recent government programs to help farmers with traditional crops, but we need to support the agricultural conversion process.

19. (SBU) Lastly, the many Salvadoran companies with export potential will continue to seek opportunities in the U.S. market, and we are seeing more interest in expansion into services markets. We will look for Administration leadership in holding open and, as possible, expanding opportunities in the services and government procurement areas following the provisions of CAFTA-DR. U.S. support for the economic development of El Salvador will be in the best interest of

the United States. U.S. participation now in the economic development of El Salvador will benefit the United States in the future, and costs borne now will help to forestall possible higher costs in the future.

Barclay